Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matters of	)	
	)	
Federal-State Joint Board on Universal	)	CC Docket No. 96-45
Service Seeks Comment On the Merits of	)	
Using Auctions to Determine High-Cost	)	WC Docket No. 05-337
Universal Service Support	)	
	)	

REPLY COMMENTS
of the
SMALL COMPANY COMMITTEE OF THE LOUISIANA TELECOMMUNICATIONS ASSOCIATION

Louisiana Rural Telephone Companies

Cameron Telephone Company, LLC
Campti-Pleasant Hill Telephone Co., Inc.
CenturyTel of Chatham, LLC
CenturyTel of Central Louisiana, LLC
CenturyTel of East Louisiana, LLC
CenturyTel of Evangeline, LLC
CenturyTel of North Louisiana, LLC
CenturyTel of Northwest Louisiana, Inc.
CenturyTel of Ringgold, LLC
CenturyTel of Southeast Louisiana, Inc.
CenturyTel of Southwest Louisiana, LLC
Delcambre Telephone Co., Inc.
East Ascension Telephone Co., LLC
Elizabeth Telephone Company, LLC
Kaplan Telephone Co., Inc.
Lafourche Telephone Co., LLC
Northeast Louisiana Telephone Co., Inc.
Reserve Telephone Co., Inc.
Star Telephone Co., Inc.

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November 8, 2006

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matters of	)	
	)	
Federal-State Joint Board on Universal Service Seeks Comment On the Merits of Using Auctions to Determine High-Cost Universal Service Support	)	CC Docket No. 96-45
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REPLY COMMENTS
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SMALL COMPANY COMMITTEE OF THE LOUISIANA TELECOMMUNICATIONS ASSOCIATION
Louisiana Rural Telephone Companies

The Small Company Committee of the Louisiana Telecommunications Association (the "SCC") hereby submits these Reply Comments in response to the Federal-State Joint Board on Universal Service ("Joint Board") Public Notice, released August 11, 2006.[1] The Public Notice seeks comment on the use of competitive bidding, also referred to as reverse auctions, to determine eligibility for high-cost universal service support as well as carriers' funding levels. For the reasons set forth in its initial Comments filed herein, the SCC recommends against the use of a competitive bidding process.

As explained by numerous parties in their comments, in order to address the unnecessary growth in the rural high-cost program, the Joint Board should recommend that support for competitive ETCs in rural service areas be limited, verifiable and cost-

[1] *Federal-State Joint Board on Universal Service Seeks Comment on the Merits of Using Auctions to Determine High-Cost Universal Service Support*, CC Docket No. 96-45, WC Docket No. 05-337, Public Notice, FCC 06J-1 (rel. Aug. 11, 2006) (Public Notice).

supported. As opposed to implementing a competitive bidding mechanism, by simply eliminating the identical support rule for competitive ETCs, the Commission could place the rural high-cost program back on track to sustainability, while preserving the part of the program that is successful and accountable to the public.

As pointed out by the Organization for the Promotion and Advancement of Small Telecommunications Companies ("OPASTCO"), excessive growth in the High-Cost program is a legitimate concern as it threatens the long-term sustainability of the Universal Service Fund. (OPASTCO Comments at p. 6). Reforms to contain unnecessary growth in the program should be tailored to directly target the root cause of the problem while not placing at risk the part of the program that is efficiently and effectively achieving the universal service goals of the Act. (OPASTCO Comments at pp. 6 – 7). The use of reverse auctions in rural service areas would fail to accomplish this, as it would needlessly abandon the highly successful and fully accountable support system for rural ILECs, based on their embedded costs. (OPASTCO Comments at p. 7). Instead, the Joint Board should target the source of the problem by recommending that the identical support rule for competitive ETCs in rural service areas be eliminated and that support for these carriers be based on their own costs. (OPASTCO Comments at p. 7).

As further explained by OPASTCO:

> It is evident that the cause of unnecessary growth in the rural High-Cost program is competitive ETCs which, in turn, is caused by the illogical identical support rule. The identical support rule enables competitive ETCs to receive the same per-line support as the rural ILEC, based on the ILEC's costs, for every customer that the competitive ETC serves in its designated territory. This creates arbitrage opportunities for competitive carriers to seek ETC status in order to receive windfalls of support that exceed the 'sufficient' levels called for in section 254(b)(5) of the 1996

> Act. Consequently, the long-term sustainability of the Fund is needlessly jeopardized and ratepayers nationwide are unnecessarily burdened. Also, considering the stark differences that exist between rural ILECs and competitive ETCs, the identical support rule fails to adhere to the FCC's universal service principle of competitive neutrality.[2]

See also the Comments of Balhoff & Rowe, LLC on behalf of the Independent Telephone and Telecommunications Alliance which explain that growth in support to competitive ETCs is the critical driver of overall growth of the high-cost support program and must be addressed directly. (Balhoff & Rowe Comments at p. 20). Balhoff & Rowe explain:

> In contrast to flat and declining ILEC support, CETC support as a percentage of overall USF growth is increasing sharply, and that growth is a major cause of concern. While large year-over-year percentage increases might be expected in the first years of a program, CETC growth will again drive USF growth in 2006, accounting for 102 percent of USF growth for 2006 over 2005 (offset by other USF programs that are contracting).[3]

Consistent with this analysis, the Congressional Budget Office concluded:

> Virtually all of the growth in spending for the Universal Service Fund's High-Cost program in the past three years reflects payments to an increasing number of competitive eligible telecommunications carriers. Most of those new entrants to rural markets use wireless technology ...[4]

The identical support rule is not competitively neutral. When industries use different technologies, deploy different architectures, have different regulatory regimes and expectations, continue to serve both differing and to some extent overlapping functions, the resulting cost structures necessarily will be very different. (Balhoff &

[2] OPASTCO Comments at p. 10.
[3] Balhoff & Rowe Comments at p. 20.
[4] Balhoff & Rowe Comments at p. 20, *citing* Congressional Budget Office, *Factors That May Increase Future Spending From the Universal Service Fund*, page 11 (June 20, 2006).

Rowe Comments at p. 24). As a result, paying identical High Cost Fund dollars results in profitability disparities that can be profoundly anti-competitive. (Balhoff & Rowe Comments at p. 24). Providing identical support to carriers with asymmetric obligations, especially Carrier of Last Resort obligations, cannot be represented as being competitively neutral. (Balhoff & Rowe Comments at pp. 24 – 25). The identical support rule is fundamentally anticompetitive, is wasteful, and apparently is not grounded in the investment goals that are core to legacy USF approaches. (Balhoff & Rowe Comments at p. 25).

See also Comments of Frontier Communications on Use of Reverse Auctions at p. 7, which explain that there is no good public policy reason to continue to give competitive ETCs support based on the costs of the ILECs.

See also Initial Comments of the National Telecommunications Cooperative at pp. 20 – 22, which explain that the identical support rule has created a dangerous incentive for wireless carriers to seek competitive ETC status in rural high-cost areas where they already provide wireless service to ILEC customers. Even if a wireless carrier knows that its costs are low enough to compete effectively without the additional support, it is compelled by the identical support rule to seek competitive ETC designation so as to maximize profits and avoid lost opportunities to obtain support. (NTCA Initial Comments at p. 22).

See also Comments of the United States Telecom Association at pp. 15 – 17, where the USTA explains that the identical support rule is putting undue pressure on the High-Cost Fund and thereby threatening the long-term sustainability of universal service. (USTA Comments at p. 17).

Accordingly, reform proposals to contain the unnecessary growth in the federal High-Cost program should include a recommendation that federal High-Cost support for competitive ETCs be limited, verifiable and cost-supported.

The existing rural ILEC support mechanisms, based actual embedded costs, has been highly successful in achieving its intended purpose: encouraging investment in network infrastructure that has enabled the provision of affordable, high-quality services throughout high-cost rural areas. Moreover, the existing rural support mechanism has been instrumental to the rural ILECs' ability to deploy the multi-functional infrastructure capable of providing broadband and related advanced services.

The SCC has serious concerns that the use of reverse auctions in rural service areas would needlessly abandon the embedded cost basis of support for rural ILECs. To address the unnecessary growth of the High-Cost Fund, the Joint Board should recommend that the identical support rule be eliminated in rural service areas and that competitive ETC support be limited, verifiable and cost-supported.

In conclusion, as set forth in the Comments of the SCC, the Joint Board should not recommend the use of reverse auctions in rural service areas. This scheme would impede the statutory goals and requirements of advancement and preservation of universal service. Such a mechanism would needlessly place at risk the continued availability of affordable, high-quality communications services, including advanced services, for many rural consumers. In addition, such a system of determining support is fraught with administrative and enforcement problems. Instead, the Joint Board should recommend the elimination of the identical support rule for competitive ETC receipt of

High-Cost funding in rural service areas and that support for competitive ETCs be limited, verifiable and cost-supported.

Respectfully submitted,

THE SMALL COMPANY COMMITTEE OF THE LOUISIANA TELECOMMUNICATIONS ASSOCIATION

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November 8, 2006

CERTIFICATE OF SERVICE

I, Paul F. Guarisco, hereby certify that a copy of the Reply Comments of the Small Company Committee of the Louisiana Telecommunications Association was sent electronically on this, the 8th day of November, 2006, to those listed in the FCC Public Notice 06J-1.

By: /s/ Paul F. Guarisco
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